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# **China, Peoples Republic of**

## **Food Processing Ingredients Sector**

### **Report**

### **2003**

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#### **Report Highlights:**

**The food industry in China is adjusting to market forces. It is getting ready for a higher level of development. Improvements of the production facilities and equipment will create demands for imported and better quality food ingredients and raw materials. They will also require better quality control. This report focuses on the condition of food processing and manufacturing in South China.**

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## 1. Market Summary

China has a population of 1.3 billion. The food industry is one of the basic industries to meet people's living needs.

The food industry in China includes the food-processing sector, the food-manufacturing sector, and the beverage sector. The food-processing sector includes rice milling, flour milling, oil refining, sugar refining, slaughtering, salt processing, feed processing and aquatic products processing. The food-manufacturing sector mainly involves the making of pastries and confections, dairy products, canned foods, fermented products, and condiments. The beverage sector includes the making of alcoholic beverage (i.e. distilled spirit, beer, and wine), soft drink and tea.

Table 1: The Food Industry in China

	1999	2001	Per Cent Change
Number of Enterprises	19,773	18,251	-7.7
Revenue in RMB	595.89 billion	706.97 billion	18.6
Number of Employees	3.84 million	2.35 million	-38.8

Between 1999 and 2001, due to consolidation, merger, and business failure, the total number of food industry enterprises in China had declined from 19,773 to 18,251, a 7.7 per cent decline. As a result, the total number of employees engaged in food industry had decreased from 3.84 million to 2.35 million, a 39 per cent decrease. However, the revenue had increased by 18.6 per cent, from RMB 595.89 billion to RMB 706.97 billion.

Table 2: The Food-processing Sector

	1999	2001	Per Cent Change
Number of Enterprises	11,231	10,381	-7.6
Revenue in RMB	321.12 billion	382.35 billion	19.1

The number of food-processing enterprises had declined at 0.1 point less than the industry's rate of decline. Its revenue was 0.5 point higher than the industry's rate of growth.

Table 3: The Food-manufacturing Sector

	1999	2001	Per Cent Change
Number of Enterprises	4,963	4,563	-8.1
Revenue in RMB	118.37 billion	151.90 billion	28.3

The number of food-manufacturing enterprises had declined at 0.4 point higher than the industry's rate of decline. Its revenue was 9.7 point (52.1 per cent) higher than the industry's rate of growth.

Table 4: The Beverage Sector

	1999	2001	Per Cent Change
Number of Enterprises	3,579	3,307	-7.6
Revenue in RMB	156.32 billion	172.72 billion	10.5

The number of beverage enterprises had declined at 0.1 point less than the industry's rate of decline. Its revenue was 8.1 point (43.6 per cent) lower than the industry's rate of growth.

All the three sectors of food industry had a decrease in the total number of enterprises and an increase in revenue between 1999 and 2001. However, there was a higher rate of vanishing enterprises and a higher revenue in the food-manufacturing sector than in the other two sectors. While the number of enterprises in the beverage sector had about the same rate of decline as that of the food industry as a whole, the rate of revenue was considerably lower than the industry's rate of growth.

Table 5: Distribution of Food Industry by Sub-sectors

	Total Number of Enterprises 1999	Total Revenue 1999	Total Number of Enterprises 2001	Total Revenue 2001
	19,773	595.89 billion	18,251	706.97 billion
Food-processing	56.8%	53.9%	56.9%	54.1%
Food	25.1%	19.9%	25.0%	21.5%
Manufacturing				
Beverage	18.1%	26.2%	18.1%	24.4%

Between 1999 and 2001, the proportions of food enterprises among the three sectors had slight or no change. However, both the food-processing and food-manufacturing sectors had a higher rate of increase than the beverage sector.

With China's membership in the World Trade Organization and the industry driven by market forces, one might expect further merge and consolidation for greater profit and efficiency in the next few years. The food industry sector is unlikely to advance further until all its sub-sectors have advanced to a more sophisticated level and higher quality of manufacturing and the products have a worldwide market. The beverage sector will probably advance at a slower pace than the other two sectors but it will continue as a significant factor in the food industry.

In 1999, the total retail sales volume of food, beverage and catering business in China amounted to RMB399.89 billion, accounting for 12.8 per cent of the total retail sales volume of consumer goods. In 2001, the total retail sales volume of food, beverage and catering business in China amounted to RMB 542.57 billion, accounting for 14.4 per cent of the total retail sales volume of consumer goods.

Table 6: Retail Sales of Food, Beverage & Catering Business

	1999 in RMB	2001 in RMB	Per Cent Increase
Food	72.22 billion	91.74 billion	27.03
Beverage	7.71 billion	13.94 billion	80.80
Catering	319.96 billion	436.89 billion	36.54

Total	399.89 billion	542.57 billion	35.68
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The two-year increase in the total retail sale of consumer goods was 20.6 per cent between 1999 and 2001. The comparable increase in retail sales of food, beverage and catering business was 35.7 per cent. Beverage sales had a hefty 80.8 per cent increase.

Table 7: The Food Industry in China

	1999	2001	Per Cent Change
Number of Enterprises	19,773	18,251	-7.7
Revenue in RMB	595.89 billion	706.97 billion	18.6
Number of Employees	3.84 million	2.35 million	-38.8

The total retail sales of food, beverage and catering business were only 67.1 and 76.7 per cent of the food industry's revenue in 1999 and 2001, respectively.

In 1999, China's total export value of food and beverage was RMB 90 billion yuan, 15.1 per cent of China's food industry's revenue that year. In 2001, the total export value was RMB 112.82 billion yuan, 16.0 per cent of China's food industry's revenue.

Table 8: Food Expenditure of Chinese Families, in RMB

	Average Food Expenditure in 1999, per capita	Estimated Total Population in 1999	Average Food Expenditure in 2001, per capita	Estimated Total Population in 2001
Urban Families	1,932.10	388.92 million	2,014.02	480.64 million
Rural Families	829.02	870.17 million	830.72	795.63 million
	Total Food Expenditure in 1999		Total Food Expenditure in 2001	
Urban Families	751,432,330,000		968,018,570,000	
Rural Families	721,388,330,000		660,945,750,000	
Total	1,472,820,660,000		1,628,964,320,000	

The estimated total amount of money Chinese families spent on food in 1999 was close to RMB1,472 billion (or, U.S.\$178.3 billion). In 2001, the amount was RMB close to RMB1,629 billion (or, U.S.\$197.1 billion), a 10.6 per cent increase in the two-year period. Add to this the food consumption in hotels, restaurants and various organizations, China's food market is enormous, indeed.

Table 9: Food Expenditure and Disposable Income in China, in RMB

Disposable Income, 1999	Disposable Income, 2001	Increase in Disposable Income	Food Expenditure, 1999	Food Expenditure, 2001	Increase in Food Expenditure
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Urban	5,854.02	6,859.60	17.18	1,932.10	2,014.02	4.24
Rural	2,210.34	2366.40	7.06	829.02	830.72	0.21

Between 1999 and 2001, the urban families had an increase of 17 per cent in their disposable income and the rural families had a 7 per cent increase. The urban families had a 4 per cent increase in food expenditure and the rural families had a very slight increase. With continuing urbanization in China, more and more residents in the rural area will migrate to the urban area and more money will be spent on food. With the improvement of the living standards of the Chinese people, the consumption of food, beverage and catering business in China will continue to grow.

## II Road Map for Market Entry

### A. & B. Entry Strategy and Market Structure

The Chinese Government stipulates that all food on sale must have a health certificate issued by the Food Health Administration. In addition to the health certificate, imported products must also have a copy of the production permit and the marketing permit issued by the country of origin, and, more importantly, Chinese labeling of the food content and information on their import/ distribution agent. These are the primary conditions for entering the Chinese food market. After obtaining the health certificate and other import documents, food manufacturers/exporters usually distribute their products through one or a combination of the following three methods:

#### Distribution through Wholesalers

The manufacturers/exporters sell their products to a wholesaler in China. Wholesalers are self-financed, specialized business organizations or people who have their own sales and distribution network. They are capable of purchasing large quantities of goods directly from the manufacturers/exporters or indirectly from an importing company. (A wholesaler may or may not be an importer. Similarly, an importer may or may not be a wholesaler.) The imported goods are sold through wholesalers to the local enterprises with a relatively quick transfer of assets. The wholesalers assume the risk of sale once the foreign products are delivered to a Chinese agent. To a large extent, the wholesalers control the demand and the pricing of the goods. As the manufacturers/exporters have no direct investment in the local markets, they know little or nothing about the market dynamics. Consequently, they may not reap a fair share of the profit.

#### Distribution on a Commission Basis

The manufacturers/exporters entrust the goods with a business organization or person and agree to settle payment after the goods are sold. As the business organizations or persons incur minimal risk (no capital cost) in selling the products, many of them are willing to sell/distribute the products for a share of the profit or a contractual payment. The manufacturers/exporters do not have to invest in a sales infrastructure but their investment is tied down for the duration of the commissioned sale. A high level of trust is required of the parties involved in this method of distribution. It is not appropriate for new business partners.

#### Direct Distribution

The manufacturers/exporters set up their sales outlet and sell their products directly in China rather

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than through a local business organization or person. The advantage is that the manufacturers/exporters can meet the consumers face to face and learn the market condition and trends. They can also reap the benefits of their sales promptly. The drawback is the need to invest in developing a sales network and the high cost of learning to operate in a foreign market.

Establishing a working, business relationship with a reliable importer/wholesaler who has an established distribution and sales network, with long-term commitment to equitable profit sharing between the partners is the most sensible strategy to market entry and development. Direct involvement in the Chinese market is essential for establishing and developing a working business relationship with an importer/wholesaler. It would be a business asset if a manufacturer/exporter has a staff member who is fluent in Chinese (Mandarin).

## C. Company Profiles

Table 10: Distribution of Food-processing, Food-manufacturing &amp; Beverage Enterprises in South China

Rank-Order Distribution of Food Processing, Food Manufacturing & Beverage Manufacturing Enterprises in South China								
	GZ	Jiangmen	Foshan	Zhanjiang	Shantou	Zhaoqing	Jieyang	Shenzhen
Food Processing	91	57	53	66	33	35	18	22
Food Manufacturing	101	46	33	16	41	20	47	28
Beverage	39	12	16	12	9	21	11	17
Total	231	115	102	94	83	76	76	67

Rank-Order Gross Output Value of Food Processing, Food Manufacturing & Beverage Manufacturing Enterprises in South China in RMB, 100 million yuan								
	GZ	Foshan	Shenzhen	Jiangmen	Zhanjiang	Dongguan	Shantou	Zhongshan
Food Processing	65.44	54.57	43.46	32.76	60.48	12.95	17.05	5.2
Food Manufacturing	99.71	17.41	13.4	29.75	1.1	13.38	11.73	10.14
Beverage	65.08	24.81	24.57	3.88	3.11	14.03	6.03	18.85
Total	230.23	96.79	81.43	66.39	64.69	40.36	34.81	34.19



The rank-order of the major food and beverage processing and manufacturing centers in South China, by number of enterprises, is as follows: Guangzhou (GZ), Jiangmen, Foshan, Zhanjiang, Shantou, Zhaoqing, Jieyang and Shenzhen. However, the rank-order of these centers, by gross output values, is somewhat different, as follows: Guangzhou, Foshan, Shenzhen, Jiangmen, Zhanjiang, Dongguan, Shantou and Zhongshan. Dongguan and Zhongshan displace Zhaoqing and Jieyang among the top eight gross output centers.

#### D. Sector Trends

Since China's economic reform and opening up to the outside world in 1979, foreign food manufacturers have gradually entered the China market. They initially seek a Chinese agent (either an organization or an individual) to represent and sell their products. They rely on the agent to assess and explore the market, to promote the product and to manage the supply and delivery of goods. The agent chooses the distribution method and decides on the profit percent and how the payment of goods is to be settled in a certain market sector. Usually, one agent would represent several foreign manufacturers and promote and sell their products in a specific region of China, e.g., Northern China or South China.

In recent years, some foreign companies set up joint ventured (JV) processing or manufacturing plants with local businesses in China. Famous brand names including Heinz, Coca Cola, Pepsi Cola, Nabisco, Wrigley, Nestle, Maxwell, Hershey, M & M, Ocean Spray, Kraft, and Campbell Soup have established JV plants in China and products sold under these brand names in China are mostly produced in local plants, about 80 percent of the market share of the brand products.

### III Competition

Table 11: Export and Import Value of Food and Beverage, in RMB

	1999 Total Food & Beverage	Per Cent to Total 1999	2001 Total Food & Beverage	Per Cent to Total 2001
Import	30.91 billion	2.3	44.55 billion	2.2
Export	90.00 billion	5.6	112.82 billion	5.1
Total	120.91 billion		157.37 billion	

Between 1999 and 2001, the total export and import value of food and beverage in China grew by 30.2 per cent, from RMB 120.91 billion (USD14.63 billion) to RMB157.37 billion (USD19.04 billion). The export value grew from RMB90 billion (USD10.89 billion) to RMB112.82 billion (USD13.65 billion) and the import value from RMB30.91 billion (USD3.74 billion) to RMB44.55 billion (USD5.39 billion), an increase of 25.3 per cent and 44.1 per cent, respectively.

With its membership in the WTO and the lowering of import tariff, China is expected to have more trade partners from the other parts of the world, i.e., more import from foreign countries and more export to foreign countries. However, this is just an expectation, the necessary but not a sufficient condition for an expansion of import and export trade.

The main food products exported by China include seafood, vegetables, grain and flour, frozen

chicken and corn. The major export trade partners of China are Japan, Hong Kong, the EU (mainly Germany and the Netherlands), South Korea, and the United States.

The main food products imported by China include edible plant oil, soybean, grain and flour, and sugar. The major import trade partners of China are the United States, the EU (mainly Germany and Russia), China Taiwan, Malaysia, Australia, and Canada.

The ordinary Chinese consumers are very price sensitive. Among the determining factors for a purchase, price is the number one concern for both the Chinese sellers and buyers. Next comes quality. Due to these factors, the volume of imported finished products is not expected to grow fast and local products of foreign brands will become more popular.

More than 90 percent of the tree nuts and dried fruits in the local market are imported from foreign countries raw, in bulk, processed and packed in China. The most popular items include pistachios, almonds, Macadamia nuts, hazelnut, prunes, raisins and pecans. Many of these nuts and dried fruits are packed either in transparent plastic bags or paper cartons for sale, usually in the supermarkets.

For ready-to-cook products sold in the local supermarkets, most raw elements are of local origins. The more common elements are beef, pork, chicken, mutton, meatballs, fish balls, seafood and fresh vegetables. They are cleaned, cut to the preferred size, packed in a white Styrofoam plate and wrapped with a plastic transparent film for display in the refrigerated section of the supermarket. Due to the fast pace of urban life, many Chinese customers welcome these convenient and ready-to-cook products. The market for ready-to-cook products is promising.

Imported beef, pork, seafood and other imported seasoning ingredients are available in high-end restaurants such as those in five-star hotels and JV supermarkets such as Park N Shop and Carrefour. Western style cuisines and cooking are gaining popularity in South China. They create a budding market opportunity for foreign food products. Currently, U.S. beef is facing strong competition from New Zealand and Canada; and U.S. seafood has strong competition from Norway, Australia and Canada. Beef jerky and pork jerky are two popular snacks made from local elements.

Thailand and Australia are the only two countries having a significant share of the imported rice market. The two most popular packages are 5 kilograms per bag for sale in supermarkets and 25 kilogram bags for the wholesale markets.

Joint ventures such as Garden, AJC and Donghaitang produce most of the bakery products sold in the local supermarkets. They buy flour from mills who buy wheat from the United States, Canada and Australia to blend with the local varieties.

Foreign fresh fruits are available all year round in China. The technology for processing fruits is fairly primitive in China. It is estimated that only 5 percent of the fresh fruits grown in China is processed into canned or preserved products. The other 95 percent is consumed fresh. Canned fruits such as peaches, pineapples and cherries are mainly used for baking. Canned litchis and longan are exported. Preserved fruits are consumed mainly as snacks.

China manufactures a great variety of milk powder. Imported infant formula and milk powder used to be very popular among young parents who want to provide the best for their only child. With the development of Chinese dairy industry and the establishment of joint ventured milk production in China, JV and local products have become the preferred choice of Chinese young parents. Worldwide brands such as Mead Johnson, Wyeth, Nestle, Dumex have joint ventures in China.

Chocolates of various brands are readily available in South China. They include original imports such as Ferrero Rocher from Italy and Lindt from Switzerland and products made in China, such as Hersey in Shanghai, Nestle in Tianjin, M & M in Beijing, and Montresor in Zhangjiagang.

The two best selling seafood snacks are preserved squid and de-boned eels. Both are made with local products.

#### IV Best Products and Prospects

The following foreign food items and ingredients are sold and well received in the South China market: almonds, pistachios, prunes, raisins, oranges, table grapes, grapefruits, hazelnuts, Macadamia nuts, apples, cherries, beef, chicken parts, bovine and swine offal, bakery ingredients, French fries, sweet corn, juices and concentrates, lobsters, clams, salmon, infant formula milk powder and candies. These items are especially popular during festival seasons like the Chinese New Year, the Mid-Autumn Festival, and Christmas.

Developing health food, microwave food, instant food, infant food, food for primary and high school students, and low calorie, low fat, low saturated fatty acid, low salt, low cholesterol, high fiber and high calcium for older people are among China's food industry's priorities.

#### V. Summary and Post Contact

The food industry in China is adjusting to market forces. It is getting ready for a higher level of development. Its immediate and urgent needs are finding the resources for upgrading the processing and manufacturing facilities and importing or making production equipments to meet consumers' demands for better quality food items. Its expansion is contingent on finding new market within and beyond its borders. The quality and pricing of the products will determine if they are able to compete domestically and internationally. Improvements of the production facilities and equipment will create demands for imported and better quality food ingredients and raw materials. They will also require better quality control.

Inquiries about this report can be directed to ATO/Guangzhou. The telephone number is 011-8620-8667-7553. The fax number is 011-8620-8666-0703. ATO/Guangzhou website [www.atoguangzhou.org](http://www.atoguangzhou.org) carries current information on the South China market.